

PREM 19/1039

CONFIDENTIAL Filing

Departments. Forward books  
Over the next 5 years

GOVERNMENT  
MACHINERY  
SEPTEMBER 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>2-12-82</del>							
<del>20-1-83</del>							
31.1.83.							
4.3.83							
PREM 19/1039							

● Awaiting folder from pm  
(after New Year bids) which  
contains all the rest of the  
forward looks.

J.V. COPY  
A.W.

Papers removed from file

Date 23/12/82

NIO to PM 20/12

Scottish Office to PM 23/12

SPEducation to PM 22/12

FCS to PM 17/12

J.V. COPY  
A.W.

Papers removed from file

Date 23/12

- MAFF to PM 20/12
- Home Sect to PM 18/12
- Hard Charge to PM 22/12
- s/s Transport to PM 22/12
- s/s Gnd to PM 22/12
- WPS to PM 22/12

COPY  
J.V., A.W.

Papers removed from file

Date 22/12

SS/En to PM 22/12

Econ Pol. Strategy  
with RB 20/12 Pt 20

Environment Forward

hook <sup>penult</sup> ~~that~~ para amended  
(80% becomes 60%)

Please

change original.

when available

Top Copy on  
Econ Pol: Public  
Expenditure: Pt 21



Prime Minister

This is a useful costing  
of the proposals in the 5-year  
forward look.

If you agree, I will  
arrange for Peter Cropper to see it on the same  
basis as he saw the earlier paper.

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

17 March 1983

Michael Scholar Esq.  
10 Downing Street  
LONDON  
SW1

Yes - Harrison

TERB

18.3.

Dear Michael,

**FORWARD LOOK: PUBLIC EXPENDITURE**

I enclose, as promised, a note which has been prepared by officials here costing the Ministerial contributions to the Forward Look exercise,

Given the nature of the responses, this has to be an interim assessment. As you will see, we hope to provide you with a much more thorough analysis in a few weeks' time when we have Departments' "Long Term Public Expenditure" and "Manpower after 1984" returns. Nevertheless, the main message seems pretty clear. Under the proposals we have seen, expenditure would rise by about 5 per cent in real terms over the 5 year period. This would, of course, compound the problems of reducing taxation and borrowing identified in the Long Term Public Expenditure report last summer.

Yours sincerely,

Margaret O'Mara

MISS M O'MARA  
Private Secretary





FORWARD LOOK: PUBLIC EXPENDITURE

This Report is based on Ministerial replies, analysed by Treasury Divisions without discussion with Departments. The new initiatives proposed seem to involve about £6 billion per annum extra expenditure (in today's prices) by the end of the decade. However, it is difficult to produce a proper estimate of the total, as many of the bids are unquantified. There are few offsetting savings. There are some unquantified windfall receipts from sales of assets and some administrative savings from computerisation or privatisation. But overall, manpower requirements would increase.

2. The most striking feature is the lack of any major proposal which would actually reduce expenditure.
3. On these figures, expenditure would rise by about 5 per cent in real terms over the 5 years. This figure is probably lower than the increase in GDP over the period, so that the ratio of expenditure to GDP would fall slightly. But there is no sign of a major structural change in the size of the public sector. In Education, the measures proposed (vouchers and loans) could lead to a shift, but not elsewhere. Even in Education, the shift would not occur within 5 years.
4. This 5 per cent rate of growth is faster than was feared when the first report on Long Term Public Expenditure (LTPE) went to the Prime Minister last summer. The Ministerial replies are not detailed enough to indicate exactly how much faster programmes would be increasing. But it should be noted that the LTPE was essentially a projection of current policies which did not cater for the new developments now put forward.



5. The Prime Minister will remember that the LTPE report itself gave cause for alarm. On the low-growth scenario (roughly projecting forward the economy's growth rate of the last 8 years), the report showed public expenditure rising from 44 per cent of GDP in 1982-88 to 47 per cent in 1990-91. On the high growth scenario (roughly equal to our best post-war performance), public expenditure fell to only 39.9 per cent of GDP in 1990-91. The latest Forward Look projections would add another one or two percentage points to the ratio in the low-growth case, further compounding the problems of reducing taxation and borrowing. In the high-growth case, expenditure would just about keep pace with the increase in GDP, maintaining a roughly constant ratio.

6. The forward looks make no attempt to tackle local authority current expenditure and proposals on specific services like education would increase it. Privatisation will have only a small impact on the overall financing requirements of the nationalised sector. They depend far more on Government policies towards railways and coal, since these industries currently absorb most of the finance going into this sector. There is no reference to any reduction of the UK share of the EC budget. The main increases come from:-

- |                 |   |  |
|-----------------|---|--|
| Social Security | - | Up to £3,400 million pa. Improved benefits and a new child benefit/FIS system. |
| Employment      | - | £200 million pa for continued employment measures up to the end of the decade. |
|                 | - | £400 million pa for Youth Training.  |
|                 | - | £100 million-£900 million pa on the Job Release Scheme.                        |
| Defence         | - | £900 million pa by 1987-88 for running on the NATO 3 per cent commitment.      |



Education	- £500 million pa on vouchers.
	- £50 million pa on student loans (though this would turn round in the following decade).
Law and Order	- £80 million pa.
Urban Renewal	- £200 million pa.
Industrial Support	- About £60 million pa, plus very large unquantified bids for fuel subsidies.
MAFF	- £20 million pa on various items.

Of these, Education, Law and Order, Urban Renewal and Industrial Support would tend to carry regional consequentials which have not yet been costed.

7. There are (oddly) no quantified extra bids for Health. Most of Mr Fowler's proposals (like more contracting-out) are aimed at economy but the savings would be ploughed back.

8. Some returns are neutral in expenditure terms, notably those for the FCO/ODA (with warnings about the hard choices this would entail) and those for the Department of Transport.

9. This has, of necessity, to be an interim assessment. It will be possible to make a much more thorough analysis in about a month's time, once the "Long Term Public Expenditure" and "Manpower After 1984" returns, due on 31 March, have been submitted. There may, of course, be considerable inconsistencies between the "Forward Look" proposals, which were prepared in a very restricted circle in Departments, and the more detailed LTPE returns.

PUBLIC EXPENDITURE SUMMARY

<u>Dept</u>	<u>Public Expenditure Cost</u>	<u>Manpower Cost</u>
DEn	Some receipts, say £200m pa, plus increases on nuclear programme	Minimum
ECGD	None	minimum, or if public corporation status -1800 approx from CS staff count.
DOT	negligible	negligible
DOI	£60 m pa plus fuel subsidies	some
DOE	£200 m (plus) pa on Urban Renewal Agencies	-
N. Ireland/ Scotland	negligible+++	negligible
Wales	negligible+++	negligible*
DEm	£100 m pa on Job Release Scheme* £140 m pa on Enterprise Allowance £50 m pa on Job-Splitting Scheme £400 m pa on Youth Training Scheme	- - - -
DTP	apparently negligible	-
HO and LCD	£80 m pa	some
DES	£500 m pa on school vouchers £50 m pa on student loans	? negligible
MOD	Perpetuate 3% pa real growth after 1985-86 (eg £500 m in 86-87, £900 m in 87-88)	-
MAFF	marginal lands £15 m pa glasshouse industry £5m pa	- -
DHSS	Cash benefits for disabled** £500 m pa approx	?
	Flexible retirement age £500 m pa approx	?
	Abolish Household Duties Test £275 m pa (max)	negligible
	Industrial Injury Scheme £40 m savings (longer term)	?
	Computerisation £110 m pa	some addition in medium term
	CB and FIS <sup>δ</sup> £2 billion (approx) pa	significant additions
	National Health Service	Unquantifiable
TOTAL	5,200 m - 5,900 m (approx)	

\* Rising to £900 million by end of decade

\*\*Not likely in medium term

<sup>δ</sup>Tentative

+++ No allowance for carry-through of English policies.

Govt Head  
Sep 82

Prime Minister (2)

MUS 4/3



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SWIE 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

JU154

Secretary of State for Industry

4 March 1983

Michael Scholar Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

Handwritten mark resembling a stylized 'M' or 'W'.

Dear Michael,

AIMS OF INDUSTRIAL POLICY

with  
PM

1 You may recall that in the 'five year forward look' that my Secretary of State forwarded to the Prime Minister on 22 December, he outlined the broad aims of the Department of Industry. Recently he has been explaining these to various audiences outside Government, notably the CBI and the National Economic Development Council. The reaction so far to the aims has been favourable. The CBI expressed considerable enthusiasm, offering to help in publicising our aims and in contributing to their development. They have pointed out the Department's approach is similar to the management procedures which large private sector corporations find necessary to work effectively.

2 At NEDC, the reaction was also positive although, of course, the TUC could not support our privatisation aims for the state-owned companies.

3 These presentations have also generated a good deal of favourable publicity, notably in the Financial Times and some specialist journals. My Secretary of State thought that this might lead to a question in the House, and that the Prime Minister might therefore like to have a background note setting out the approach that he has been adopting. The attached note outlines the rationale for the aims themselves and the management system that is being developed to translate the aims into action. We can supply further details on any aspect of the system if required.

Yours sincerely,

Jonathan Spencer

J P SPENCER  
Private Secretary

Govt Mach:

Forward Look

9/82



## AIMS OF INDUSTRIAL POLICY

### Background

1 Soon after arriving at the Department of Industry, the Secretary of State decided that its purposes needed much clearer definition. Some policies were trying to speed up industrial change and adaptation, while others inhibited these processes. The first step towards a more effective industrial policy was to clarify what the Department was trying to do.

2 A well run organisation needs to be clear about its objectives at each level of management. Ministers need to be able to see what resources are being allocated to the pursuit of different aims. Managers at each level need to be able to relate their work to them. There should be a constant search for ways of improving the balance of effort in order to achieve the Department's central purpose. In companies, profit provides a common yardstick for control. Government aims are more complex and the need for clarity is correspondingly greater.

### Departmental Aims

3 The central purpose of the Department of Industry is to help the productive sector in the UK to become profitable, competitive and adaptable. This is primarily a task for private sector management working within a framework of market disciplines. But Government exerts a good deal of influence on the climate within which industry operates. It can also act in various ways to promote innovation and improved efficiency.

4 The Department's broad or 'strategic' aims are set out at Annex A. The aims are divided into three broad headings: climate, innovation and efficiency. Each is expressed in terms of an international comparison; we cannot afford to aim at anything less than full international competitiveness. These are sub-divided into fourteen main aims. All the Department's activities are being reviewed in the light of the aims to identify gaps, imbalances and to expose any contradictions.

## Management of the Department

5 This chart is used as the framework for the management system now operating at the Department. Every Division is required to think hard about its own purposes and produce a series of specific objectives for itself. The Secretary of State hopes to publish most of these Divisional objectives before long. Public debate can help to secure acceptance outside the Department and commitment within it.

## Divisional Targets

6 Although there are some categories of work which are essentially responsive to outside demands, it should be possible to produce targets of some kind for nearly all of the work undertaken by the Department. In some cases it is possible to express the target in terms of a change in the industrial world - eg raising the level of micro electronics usage in industry from 30% of all companies to 60%. Other targets relate to improved productivity within the Department: eg improving casework processing time. Fixing targets for as much of the Department's work as possible helps to orientate staff at all levels towards achievement. It also provides a basis for review at senior levels, to ensure the targets are the right ones, to check the balance of effort among them, and to provide the basis for a review of performance at the end of the year. Already there are over a thousand short-term targets. Some subjects are better suited to a five year time-scale. There are fifty such targets contained in the Department of Industry's Five Year Forward Look.

## ACT

7 The system by which all Divisions are required to specify their objectives and targets is called the ACT - Activities, Cost and Targets - Management System. (This is described more fully in the Department's Development Plan, in response to the FMI.) After some experimentation last year, the Department is operating the system in full for the first time in 1983. Besides setting out their objectives, targets and costs, Divisions are required to show the effect of a reduction in staff and how extra staff could be used. This is one source



of information about priorities as seen at Divisional level. ACT plans are reviewed first at senior official level, then by Ministers.

8 An example of how Departmental aims are reflected in Divisional objectives and translated into targets for 1983 is shown below:

Aim 3.3: Awareness and rapid adoption of key technologies to maintain competitiveness

Objective: To promote advanced production engineering technologies in supplier and user industries

Target: Extend the Computer Aided Design and Computer Aided Manufacture programme to include Production Management; take the programme to a further 1,500 companies by March 1984. (This target represents a large increase on achievements so far; it poses a real challenge for the Division in the timescale.)

#### Resource Management Group

9 A new Resource Management Group has been established, under the chairmanship of the Permanent Secretary. Its task is to keep under review the deployment of the Department's money and manpower, to ensure maximum contribution to the Department's aims.

#### Management Information System

10 As the FMI recognises, better management systems need the right information to support them. A team of consultants has recently examined the Department's information systems. A comprehensive plan has been produced. Some improvements will take effect quickly; others will require development over several years.

## Conclusion

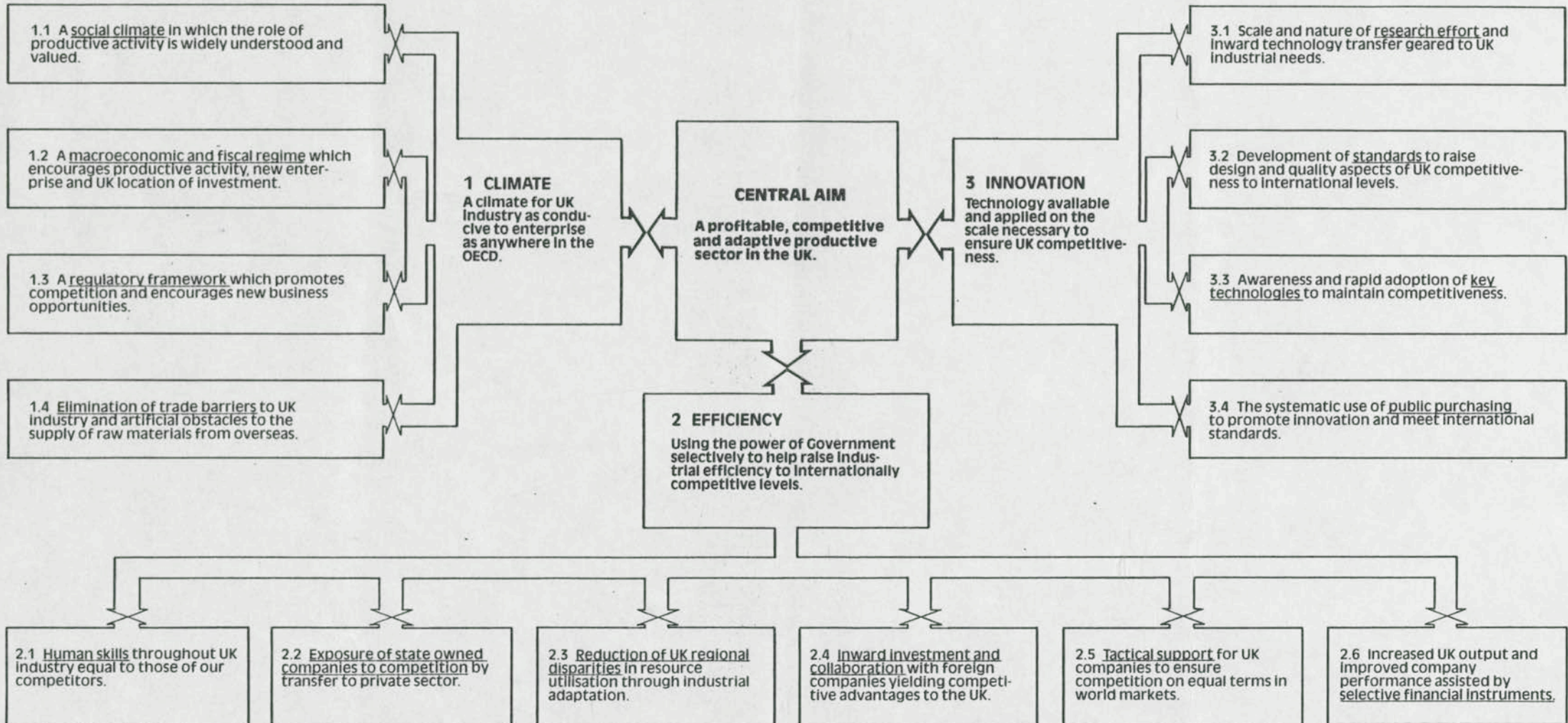
11 This system should help the Department to bring the pattern of its activities and spending more closely into line with the central aim. Priorities will change and need to be kept under constant review. At the moment top priorities are seen as:

- improving the climate for enterprise, especially new businesses
- harnessing the national research effort to commercial purposes
- speeding up the application of key technologies to new and established industries alike
- helping to develop UK management skills, especially marketing and design in a variety of ways.

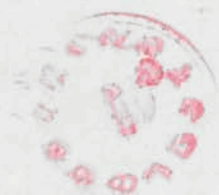
12 Hand in hand with expansion in these areas must go a reduction in spending on the casualties of the past. The Department's aims and the new management system provide a framework within which the switch can be made.

# DOI STRATEGIC AIMS

ANNEX A



24 MAR 1987



MBPM



2 MARSHAM STREET  
LONDON SW1P 3EB

My ref:

Your ref:

21<sup>ST</sup> February 1983

*D. Nich,*

FORWARD LOOK

Thank you for copying to me your memorandum of 30 December. It brings out very clearly the difficult problems with which you are faced.

There is only one reference with which I would take issue; that is where you talk about a more equitable system for water charges. We have consistently turned our faces against equalisation, principally on the grounds that money transfers between authorities weaken cost discipline and financial accountability, but also because the degree of centralised direction over the industry that an effective system of equalisation would require smacks more of socialist policy than ours.

The message we are trying to get across to the water authorities is that greater productivity and cost cutting are the way to keep down charges. I know you share this view and are making strenuous efforts to make the Welsh WA more efficient. It would be a great pity if the expectation of outside financial support led the Authority to relax its efforts.

Section 30 of the Water Act 73, with its emphasis on cost related charges, has stood the test of time. The charges of other utilities are also cost related with regional differences for distance related tariffs, although the statutory requirements are not identical. It must surely be right to charge individual customers as closely as possible for the costs of the service they receive. I very much hope that on reflection you agree with this.

I am copying this to the recipients of yours.

*Tom King*

MPBM



1981 FEB

ST  
1981  
FEB



bc F. Mount

Gov mem

10 DOWNING STREET

From the Principal Private Secretary

31 January 1983

FIVE YEAR FORWARD LOOKS

Michael Scholar wrote to you on 20 January agreeing that it would be useful if the Treasury prepared a commentary on the five year forward looks which can then be used as background to the exercise on long-term public expenditure.

The Prime Minister considers that these minutes would also be a useful source of material on the programme of a further Conservative Government, alongside the material which is being prepared by the Conservative Party Policy Groups under the supervision of the Chancellor of the Exchequer. The five year forward looks contain a lot of sensitive material and they should not go outside the Government. So the Prime Minister has suggested that it would be useful if Mr. Peter Cropper produced an analysis of them on the basis that

- a. he does so in his capacity as special adviser to Mr. Parkinson;
- b. the papers do not go out of Government offices.

I am therefore sending a copy of this letter with a complete set of the papers to Alex Galloway (Chancellor of the Duchy's office) for him to make available to Mr. Cropper on the basis set out above.

I am also copying this letter to Richard Hatfield (Cabinet Office).

E. E. R. BUTLER

John Kerr, Esq.,  
HM Treasury.

F

List of enclosures sent to Keith Long  
(Chancellor of the Duchy's office)

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Departmental Forward Looks:-	<u>Date</u>
HMT to PM	23.12.82
DHSS to PM	23.12.82
Defence to PM	24.12.82
Lord Chancellor to PM	22.12.82
Home Secretary to PM	18.12.82
Employment to PM	23.12.82
Transport to PM	22.12.82
Northern Ireland to PM	20.12.82
Industry to PM	22.12.82
Lord Privy Seal to PM	22.12.82
Energy to PM	22.12.82
Scottish Office	23.12.82
Education and Science to PM	22.12.82
FCS to PM	17.12.82
MAFF to PM	20.12.82
Welsh Office to PM	30.12.82
DOE to PM	23.12.82
Minister for the Arts to MCS	23.12.82
Department of Trade to PM	24.12.82



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JOE VS

BF

10 DOWNING STREET

*From the Private Secretary*

20 January 1983

Five Year Forward Looks

The Prime Minister and the Chancellor had a word this afternoon about the Five Year Forward Looks which Departments have produced.

The Prime Minister said that she would find it helpful if the Chancellor had a note prepared within the Treasury which brought together all these Forward Looks and which identified the public expenditure implications and drew attention to any gaps in them and overlaps between them.

I am sending a copy of this letter to Richard Hatfield (Cabinet Office).

M.C. SCHOLAR

John Kerr, Esq.,  
H.M. Treasury.

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PRIME MINISTER

cc Mr Mount

Five Year Forward Looks

The Chancellor wants to raise with you the handling of the Five Year Forward Looks. His immediate point is whether the Treasury should comment on the implications for expenditure.

I have discussed the handling of the Forward Looks with Sir Robert Armstrong and Ferdie Mount.

They are relevant for two purposes:-

as background to the long term public expenditure exercise; and

as a basis for preparing the programme for the next Government.

On the latter, you know that the Chancellor has a number of policy groups. The Forward Looks - many of which are classified - should not go to those policy groups or to the Conservative Research Department. But Peter Cropper could be asked personally to analyse them and extract the points relevant to the next Government's programme, so that these points can be considered alongside the conclusions of the policy groups.

For both the purposes mentioned above it would be useful to you and the Chancellor to have the Treasury's comments on the expenditure implications of each Department's plans: these comments will be relevant both to the long term public expenditure exercise and to the preparation of the programme for the next Government.

/Members

Members of the Cabinet will soon start asking what you are doing with their Forward Looks: we are preparing a form of words which you could use in Cabinet, thanking your colleagues for their papers and telling them in general terms how you are proposing to use them.

F.R.B.

18 January 1983



JU602  
Secretary of State for Industry

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

5 January 1983

John Halliday Esq  
Private Secretary to the  
Home Secretary  
50 Queen Anne's Gate  
London SW1

*Dear John*

...1 attach a copy of this Department's Five Year  
Forward Look which my Secretary of State sent  
to the Prime Minister on 22 December.

2 I am copying this letter to the private  
secretaries to other members of the Cabinet.

*Yours sincerely*  
*David Saunders*

DAVID SAUNDERS  
Private Secretary



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PRIME MINISTER

FIVE YEAR FORWARD LOOK FOR DEPARTMENT OF INDUSTRY

At Cabinet on 29 July each Minister was asked to prepare a report on a 'Forward Look' at his Department's programmes for the next five years. Your letter of 16 September elaborated the request, asking for an input to collective thinking for a positive and coherent strategy for the next Parliament. You indicated that the reports should include outstanding commitments and major initiatives anticipated over the five year period, showing resource implications as far as possible.

2 The central aim of our industrial strategy is to help the UK productive sector to become more competitive, profitable and adaptable. Unless we are successful in this, many of our other policies will be frustrated. I see the next five years in terms of continuing to develop and apply a range of policies designed to help achieve this. There will be several 'major initiatives' and many smaller ones, but much of our work will be a steady evolution of the policies that I believe can make the biggest contribution to our central aim. Alongside this there will be a reduction in spending on policies whose contribution is smaller or uncertain, together with a drive to complete the task of returning the state-owned enterprises to the private sector. Our future claims on resources, which I am determined to keep to a minimum, arise from the totality of these changes. I have therefore thought it right to provide a fairly full account of the Department's work - insofar as it can be foreseen - over the five year period.



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3 As part of our general approach to policy-making in this Department we are trying to be as clear as possible about our objectives. You will see our broadly expressed aims annexed to the report. In the report itself I have expressed our intentions in terms of specific targets wherever possible. I should stress that most of these targets depend heavily on others: on industry itself, on the education and training system, and on the policies of other Departments.

4 Basic to all our policies is a belief that the market knows best. Our most important task therefore is to create a climate in which market forces can work. This is a priority for the Government as a whole. The Department's distinctive role is to understand the needs of industry and to help ensure that wealth creation is accorded high priority by other Departments. To establish the right climate we must work to overcome obstacles of all kinds: inertia; lack of awareness; timidity; inherited attitudes and old habits. Despite the progress of the last three years, there are still far too many rigidities throughout the economy - including those imposed by Government itself. We must play our part in helping to improve industry's competitiveness by reducing its costs wherever possible. All these burdens are often disproportionately heavy on new and small firms; special efforts are required to improve the climate for them.



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5 There is also a need for more direct action by Government. It is very important that UK companies quickly grasp the opportunities presented by changing technology. We have been very active this last year in raising the level of awareness of information technology. Industry has recently identified the need for large scale research ('Alvey') to lay the foundation for the electronics and computer industries' competitiveness in the 1990s. Industry wants the DOI to take a leading role in this process. More generally, many studies suggest that although we in Britain are excellent at research itself, there are still far too many obstacles to the effective application of research knowledge to commercial purposes. Tackling this subject will be one of our major priorities.

6 Industrial performance in advanced countries depends on the development of 'human capital' just as much as on our investment in modern equipment. Apart from working to improve the performance of the education system, we are devoting an increasing proportion of our resources to supporting private sector management - through providing information and training about new technologies, and ensuring that consultancy services are available. Increasingly we see UK management as our scarcest resource, on whom our future depends. We must ensure that they have the right incentives and every opportunity to learn. This does not mean Ministers or Civil Servants telling



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managers how to do their job. It means action to ensure that the right kinds of services are available and are used, especially by smaller and medium sized companies.

7 I have included sections on the changes planned in the management of this Department and of the implications for resources of manpower and money. We shall be doing our utmost to switch resources from one activity to another, and to find new opportunities for contracting out wherever this can be done without loss of efficiency. I am in no doubt that understanding and support of the productive sector should be one of the Government's highest priorities. It is therefore essential that we should have enough people to do this properly, and I cannot at present see much scope for reducing total manpower in this Department during the period. As the report explains, much depends upon the outcome of the current regional policy review. If the outcome places increased burdens upon us, then it may be necessary to make a small increase in this Department's provision in order to achieve the targets set out in this report. I believe this would be a price worth paying. (We will have cut by some 23% between 1979 and 1984).

8 Your letter asked for outstanding commitments and major forthcoming initiatives to be identified. We have discharged all the specific commitments in my area of responsibility with which we entered office. The foreseeable major initiatives over





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the next five years include:

- (1) privatisation of BT and Rolls Royce
- (2) progressive sale of BSC, BS and BL
- (3) creation of a liberal regime for telecommunications and interactive cable services
- (4) mounting a major programme of collaborative research in Advanced Information Technology
- (5) major revision of regional policy
- (6) drive to develop and support more professional management, especially in small and medium sized companies.

PT

P J

22 December 1982

Department of Industry  
Ashdown House  
123 Victoria Street  
LONDON  
SW1E 6RB

FIVE YEAR FORWARD LOOK FOR THE DEPARTMENT OF INDUSTRY

- 1 INTRODUCTION
- 2 CLIMATE FOR ENTERPRISE
- 3 INNOVATION
  - 3.2 Key Technologies
  - 3.3 Transfer of Technology
  - 3.4 Research for Industry
  - 3.5 Standards
  - 3.6 Public Purchasing
- 4 EFFICIENCY
  - 4.2 Human Resources
  - 4.3 Management
  - 4.4 Nationalised Industries
  - 4.5 Regional Policy
  - 4.6 Inward Investment and Collaboration
  - 4.7 Tactical Support in World Markets
- 5 DEPARTMENTAL MANAGEMENT
- 6 IMPLICATIONS FOR RESOURCES
  - 6.2 Expenditure
  - 6.3 Manpower

FIVE YEAR FORWARD LOOK FOR THE DEPARTMENT OF INDUSTRY

## 1 INTRODUCTION

1.1 The central aim of the Department of Industry is to help the UK productive sector to be competitive, profitable and adaptable. This is primarily the task of UK management, working within a framework of market disciplines. All the policies of the Department are designed to enable these mechanisms to work efficiently, not to usurp the function of the market place. It follows that our first task is to maintain a thorough knowledge of industry itself and its needs. As its needs change, so must we. To pursue this the Department has a range of more specific aims which are grouped under three headings: climate, innovation and efficiency (Annex 1). We see the five year period in terms of making very substantial progress towards achieving these aims.

## 2 CLIMATE FOR ENTERPRISE

2.1 Our aim here is to create a climate for enterprise in the UK that is at least as favourable as any among OECD countries. Of course this Department has very little direct influence on the climate. Our work in this field is chiefly through our influence on other Departments. There is a great deal still to be done in removing obstacles - some of them Government-imposed - to enterprise at all levels from self-employment through to larger companies.

2.2 It is now recognised that new and small businesses have a very important part to play in providing the dynamic and most adaptable element in the economy. The comparatively small share of UK economic activity in the hands of small and medium-sized enterprises is seen as one source of our poor industrial adaptability. We aim to increase this share. We see improved incentives as the most important single route to encouraging self employment and the creation of new businesses. Measures to improve the provision of risk finance, 'patient money' and suitable premises are also important. Efforts must continue to lighten the legislative burdens that are disproportionately onerous to small companies.

2.3 Entrepreneurship is becoming more widely valued. However it is still far too common for our best brains to shy away from wealth creating activity, especially manufacturing. We are working to help change the perception of wealth creation by everyone in the education process from schoolchildren to university teaching. The newly established Engineering Council has an important role to play here. Over the next five years, the Department will support it in every way. (DoI interest in education and training is discussed further at section 4.2.)

2.4 In the short to medium term the business climate for large companies is still more important. Worldwide recession has made it very tough; the return on capital has fallen to historically low levels. In the past few years, fluctuations in interest rates and the exchange rate have played havoc with industry's ability to plan. In future, industry should benefit from a more stable macro-economic framework, with inflation and public spending under control.

2.5 Over the next five years the Department of Industry will continue to speak up for industry's needs in the fields of taxation and regulation. More action is needed to improve personal incentives and mobility; abolish the NIS; contain the rates burden; and to shift the balance of bargaining power further in favour of managers, weakening the power of trade unions to resist change and wage flexibility.

2.6 Together with the Department of Trade, we will work to eliminate barriers to our exports, especially within Europe.

2.7 All specific targets in this field depend on close co-operation with other Departments. They include:

#### Domestic Climate

- 1 Make the tax treatment of share options and incentive schemes as generous as in the USA
- 2 Eliminate the fiscal bias which favours investment in property and pensions over productive assets
- 3 Ensure the tax treatment of R & D is as favourable as in the USA

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- 4 Abolish NIS as soon as possible; consider reducing NIC
- 5 Reduce the burden of industrial and commercial rates
- 6 Reduce energy costs to industry through access to all fuels, including coal, at internationally competitive prices
- 7 Remove obstacles to self-employment and to the formation and growth of small firms, particularly by:
  - providing tax relief to investors in Small Firms Investment Companies
  - extending/improving the Business Start-Up Scheme; Loan Guarantee Scheme and Enterprise Allowance Scheme.
- 8 Remove obstacles to mobility, especially those imposed by non-transferability of pensions
- 9 Ensure adequate supply of premises for small companies
- 10 Investigate effects of Corporation Tax and possible fiscal bias against service industries

EC

- 11 Complete the Community's internal market by dismantling non-tariff barriers and opening up public purchasing policies in other member states
- 12 Ensure the Commission uses its powers to outlaw covert aids to industry in other member states
- 13 Reduce EC discrimination in favour of agriculture switching EC support towards innovation in industry

Worldwide

- 14 Resist pressures for protection.

3 INNOVATION

3.1 The climate for enterprise will not become so favourable during the next five years that there will be no need for Government to act in various ways to promote innovation and efficiency. But wherever we act, it must be to support judgements made in the market place.

3.2 Key Technologies

3.2.2 Spreading awareness and application of key technologies is a major task. The success of IT year shows that the Department can play a useful role in raising awareness. But

adoption is a much slower process. The MAP programme has helped over five years to raise use among companies of micro-electronics from 5% to 30%. This is still far too low. Project evaluation shows that MAP awareness, consultancy, and project support brings high returns. The Department can increase the rate of diffusion of IT by encouraging its application to areas outside commercial life, where the benefits can be directly apparent to the general public. We have made a start with this through assisting the introduction of micro-computers into general practice and demonstration projects and pre-production orders for systems which use IT to help the disabled.

3.2.3 The application of IT to cable technology represents a major opportunity for the UK and we aim to establish a framework which will enable private enterprise to develop the potential for new services rapidly. We aim to open up the telecommunications market by licensing interactive cable services during the next Parliament. This should lead to Britain being the first country to be served by a complete new 'electronic grid' of interactive services.

3.2.4 Over the next five years the importance of promoting new technologies will increase. Provided companies take the larger part of the risk, we will be ready to consider support for innovative products which covers market assessment; applied research; development; pre-production tooling and investment; prototype developments; and initial marketing. All major projects are subject to advice from outside industrialists through an Advisory Board. This helps to ensure that support follows market place judgements. Support will not be confined to particular sectors of industry. It is vital that we do not fall into the trap of thinking that the new technologies should be supported at the expense of the so-called 'mature' industries. There is abundant scope for applying new techniques to established industries to improve their competitiveness with very high returns. Robots in car assembly provide one example. 'Enabling' technology with widespread applications will continue to arise in the next five years and we will continue to help the spread of new technology by a variety of methods, including demonstration projects

### 3.3 Transfer of Technology

3.3.1 Britain's future in a highly competitive world depends increasingly on our ability to generate and use knowledge. Efforts must be stepped up to ensure a sufficient flow of information from the researcher through to the companies that can apply the knowledge, and between companies and sectors.

3.3.2 One way of transferring technology is to increase contact between researchers and companies through seminars etc. Evidence suggests that mobility is the most effective method of all. The Department will be active in seeking out and removing the obstacles to movement of qualified personnel, particularly from public sector institutions, including universities, and Government laboratories to the private sector.

3.3.3 We intend to promote technology transfer through a variety of initiatives. We have put forward proposals for the British Technology Group (BTG) to enable it to play a more positive role in the transfer of technology to the private sector from the public sector and from abroad within the overall framework of the Department's policies for industrial innovation. The BTG will put greater emphasis on searching out new opportunities and making the most of its expertise in licensing and patenting.

3.3.4 In conjunction with SERC we intend to extend a very successful scheme for locating graduate students in companies (The Teaching Company Scheme). We will also help with the establishment of new ventures linked to existing research institutions to exploit in-house research, encourage work in potentially exploitable areas and provide consultancy services and other help to industry. These ventures may take a number of forms such as growth centres for research-based industries, Science Parks, innovation centres for local industry and incubation centres for fledgling high technology companies.

### 3.4 Research for Industry

3.4.1 In Britain there has been insufficient civil research effort in fields relevant to UK industry. We aim greatly to increase the industrial relevance of the £1.6 billion spent

annually by Government on civil research. There needs to be better industry representation on the bodies which control the distribution of research funds in the public sector such as the UGC and the ABRC.

3.4.2 UK industry's own expenditure on R & D remained static in real terms during the 70s. American experience suggests that the level of privately funded R & D can be increased by imaginative use of the tax system. We want to explore this with the Inland Revenue.

3.4.3 We intend to increase the amount of effort in the Department's Industrial Research Establishments devoted to projects designed to yield industrial benefits in the medium to long term, linking science research successes to engineering applications. All efforts to identify areas for longer term research are subjected to the scrutiny of the Department's Research Requirements Boards so that industrial representatives can ensure that the programmes complement the work industry is carrying out itself.

3.4.4 Industry has proposed a large scale collaborative research programme in advanced information technology (the Alvey programme). Industry will be fully involved, but at this 'pre-competitive' stage it will be necessary for Government to meet a large part of the cost. Because many competing companies need to be brought together, alongside universities and other institutions, Government will need to organise the programme. This will be one of the major tasks of the Department during the next five years. Collaborative research is planned on a smaller scale in several other areas.

### 3.5 Standards

3.5.1 The aims set out in the White Paper on 'Standards, Quality and International Competitiveness' will require a major contribution by the Department of Industry towards the development of a system of standards, certification and approval to improve the quality of British goods. Eventually our system of standards should confer advantages on our industry on the same scale as German companies have benefited from the DIN system.



### 3.6 Public Purchasing

3.6.1 We will seek out further opportunities for enlightened public purchasing to support new standards, innovation and high quality British products. In particular we aim to adopt methods used in the US to ensure that small businesses get their fair share of public contracts, notably through 'set-aside' programmes for all public contractors. We will also encourage large private sector companies to do the same. Government should use its power as purchaser to reinforce its policy objectives in other areas even though this may involve hard decisions to forego the cheapest price offered in favour of overall economic value. We must resist pressures to take refuge behind international commitments. We need to develop more coherent policies whereby the public sector identifies its need for new products, initiates the development work in the private sector, pulling through new technologies, and backs this up with volume orders. Office automation is one area where this approach needs to be applied vigorously.

3.6.2 The defence equipment and R & D budgets require special effort to make sure that this Government expenditure contributes to industrial and commercial objectives. 80% of the funds Government provides to industry for R & D is for defence purposes and the civil spin-off from this expenditure needs to be greatly increased.

3.7 Specific targets in support of innovation aims include:

#### Key technologies

- 1 Raise application of microelectronics from 30% to 60% of firms by 1987
- 2 Establish, with the Home Office, an interim strategy for a national cable network with a limited number of franchises offered in 1983

#### Technology transfer

- 3 Build up four major growth centres for research based industries

- 4 Build up a active local network of innovation centres so that by 1987 no firm in the UK is more than fifty miles from one
- 5 Encourage the development of Science Parks throughout the country
- 6 Treble the number of participants (currently 90) in the Teaching Company scheme
- 7 Remove obstacles of tenure and pensions which deter qualified personnel in public sector research (45,000) from moving into private industry

#### Research

- 8 Organise and support a major programme of collaborative research on Advanced Information Technology (the Alvey programme)
- 9 Use collaborative ventures and tax incentives at least equal to those in the USA to promote industrially relevant research

#### Standards

- 10 Treble DoI expenditure on specification standards in Government laboratories and industry
- 11 Use British Standards in legislation and public procurement
- 12 Gain international recognition for UK testing and product certification schemes

#### Public purchasing

- 13 Identify and remove obstacles to increased civil spin off from defence R & D spending
- 14 Help British firms to establish a major presence in new markets - such as healthcare and office automation - by pilot projects and enlightened public purchasing to achieve volume
- 15 Establish 'set-aside' programmes for small business suppliers by all public contractors

#### 4 EFFICIENCY

4.1 Apart from its role in promoting the right climate for industry and encouraging innovation, the Department uses its influence to promote efficiency in a number of other ways.

4.2 Human resources

4.2.1 Industrial performance in advanced countries depends as much on the development of 'human capital' as on investment in modern equipment. The Department has an important role in helping to ensure that industry's manpower needs are understood and met by the educational and training systems at all levels.

4.2.2 The 1979 Manifesto committed the Government to review the relationship between school, further education and training to see how better use can be made of existing resources. Although this is primarily a matter for DEm and DES, this Department is uniquely concerned about the implications for industrial competitiveness. A low proportion of the working population is vocationally qualified in comparison with our industrial competitors.

4.2.3 The Department supports the objectives set as part of the New Training Initiative for developing and implementing by 1985 standards for training. We want to end unnecessary time-serving conditions and age barriers by that date. We support the MSC in its new initiative for vocational education for the 14-18 year old age group and the Engineering Council's efforts to give greater emphasis to technician education in engineering.

4.2.4 More action is needed to remedy the unbalanced attitude to industry and commerce which in many institutions ranges from indifference to contempt. This change should encourage young people to choose vocationally relevant courses throughout education. More and better industrial representation is required at all levels of education from the NAB and the UGC down to the governing boards of primary schools. Direct liaison between firms, schools and colleges is also vital. The Department's Industry/Education unit will continue to be very active in this area. Clear and authoritative information is required about industry's education needs.

4.2.5 Where a rapid response is required to a new training need over the next five years the Department may collaborate directly with the MSC. One example is the programme to establish at least 150 Information Technology Education Centres (ITECs) over the next year. The Department is reviewing the implications for training and qualifications of the increasingly close links between mechanical and electrical engineering which advanced manufacturing technology requires.

4.2.6 The Department will fund some projects directly to give a clear and early signal to the system of industrial needs. The successful micros in schools initiatives are examples of this kind of action. Further initiatives may include sponsoring lectureships, fellowships and studentships in key subject areas.

4.2.7 Just over 60% of students in higher education are estimated to be in science, technology and other vocationally orientated subjects. Since the early sixties the proportion of arts and social studies students in higher education increased markedly. The UGC has said that it intends that by 1983/84 the balance between arts and science and technology should shift in favour of the latter by 2% and that there should be an absolute increase of 2% in the number of engineering students over the levels in 1979/80. We believe that this degree of adjustment is not sufficient to meet the needs of <sup>the</sup> economy over the rest of the century or the likely demands of prospective students as the importance of the new technologies becomes more widely appreciated. Not only does the balance have to shift more dramatically but the relevance of science and technology courses to industrial and commercial needs must be improved, for example by the inclusion of modules on topics such as operational research, statistical quality control and management accounting. Given the long lead times needed to modify higher education provision, action needs to begin as soon as possible.

#### 4.3 Management

4.3.1 Evidence has accumulated suggesting both that UK executives are less highly qualified than their continental, US and Japanese counterparts and that the education and training

UK managers receive is not sufficiently related to their future careers. The lower status of engineering and manufacturing in the UK are symptoms of the overall problem. General management in UK manufacturing has also been criticised for lack of market orientation and its neglect of medium and longer term considerations.

4.3.2 The Department has responded to this by developing a number of programmes designed to promote the awareness and adoption of advanced manufacturing techniques such as computer aided design, flexible manufacturing systems and robotics. More effort is required to support UK management - especially in small and medium-sized companies - to increase their capacity to take on their international competitors. Advisory services need to be developed not just in connection with the new technologies but also for those aspects of management which apply to almost all enterprises such as management accounting, stock control, buying, marketing and statistical quality control.

4.3.3. The Department itself has no special expertise to offer but it can bring about changes. Increased industrial relevance of education is part of the solution. The Engineering Council has an important role to play in this and other aspects of the problem. Increased mobility for executives, promoted by the removal of obstacles to mobility such as non-transferable pension rights needs to be encouraged. The spin-off effects of inward investment by foreign companies who introduce best management practices into the UK can be substantial. We shall also encourage the appointment of suitably qualified and experienced non-executive directors.

4.3.4 The Department can also help by meeting the costs of consultancy in specialised fields through services like the highly successful Manufacturing Advisory Service or Design Advisory Service. In general these schemes involve much less expenditure than the more traditional role of contributing directly to project costs. But they generate very high returns in terms of improved efficiency. There is scope for a much bigger role for DoI in making services available to management, who are in the front line in bringing about improvements in performance.

4.3.5 Our specific targets in these fields are:

#### Education and Training

- 1 Establish at least 150 ITECs by the end of 1983, in collaboration with the MSC. Aim at 400 by 1987
- 2 Improve the quality and availability of information about industry's requirements from education
- 3 Encourage more and better industrial representation at all levels of the education system and better liaison between firms and schools. Every teacher should be offered a short period (eg a fortnight) in an industrial or commercial company
- 4 Improve the vocational relevance of courses throughout higher education. Specifically:
  - accelerate the shift towards science and engineering so that by 1987 the proportion of students taking non-vocational arts degrees is reduced from its present level of 40% to 25%
  - all scientific and technical education should include modules on business subjects such as accountancy, design, marketing, statistical quality control
  - all arts courses should include some exposure to numerical, technical and commercial subjects
- 5 Ensure that all craft and technical level training includes material on basic business principles
- 6 Increase exposure by students at all levels to modern production techniques and equipment
- 7 Improve the industrial content of teacher training and re-training, if necessary with pump-priming finance
- 8 Support the New Training Initiative, including the Open Tech, and press the MSC to eliminate time-serving by 1985

#### Management

- 9 Increase provision in adult education for management education - if necessary, by direct Departmental financing of projects eg through the Open University
- 10 Extend the Department's funding of advisory services to management to cover all specialist fields with availability to all small and medium-sized companies
- 11 Establish local enterprise agencies involving the private sector to provide advice to small firms in every centre of population in the country, with back up support from the Small Firms Service
- 12 Provide a computer-based information service linking all enterprise agencies and other bodies providing advisory services for new and small firms throughout the country.

4.4 Nationalised Industries and State-owned Companies

4.4.1 Wherever feasible, the Department aims to return productive activity to the private sector. Legislation to turn BT into a Companies Act company and to sell shares is before the House. October 1983 is the target date for BT to lose its 'exclusive privileges' and obtain a licence to provide a telecommunications service in the UK. A competitor has already been licensed. The regulation of this growth industry will be an important task for the Department, through Oftel, in the years ahead.

4.4.2 Legislation to permit the introduction of private capital into the activities carried out by British Shipbuilders is before the House. The precise timing will depend on market conditions.

4.4.3 Over the next five years the following measures should have taken place:

British Telecom .....	sale of 51% of company to the private sector
British Steel Corporation .....	disposal of businesses peripheral to <del>steel-making</del> virtually complete by 1984; joint ventures with private sector (operating transparently) in areas of overlap eg cold narrow strip, springs and engineering <del>stocks</del> by 1984; privatisation of major steel making businesses as they are returned to viability after 1984
British Shipbuilders .....	privatisation of shiprepair activities during 1983/4 and Vickers, Yarrow and Vosper warship builders after the election
National Enterprise Board (BTG) ..	disposals of all subsidiaries
British Leyland .....	introduction of private equity into Jaguar and possibly Unipart and Land Rover (with or without Leyland Group) by 1985
Rolls Royce .....	return to the private sector by 1988

4.4.4 For all NIs and state-owned companies the Department will continue to set challenging objectives, including financial and performance targets. Chairmen of the highest calibre will be appointed, linking their remuneration to performance in relation to agreed objectives.

#### 4.5 Regional Policy

4.5.1 Regional policy is the subject of an interdepartmental review. The results will be for implementation in the next Parliament. Although we cannot anticipate the outcome, we hope to cut back on automatic capital aids and to make future policy more in tune with the Department's other aims: stimulating new enterprise, promoting innovation and developing human resources. There is also a strong case for integrating this Department's regional work more closely with that of DoE and DEm and for securing a fair balance between Scotland, Wales and the disadvantaged regions in England.

#### 4.6 Inward Investment and Foreign Collaboration

4.6.1 Successive Governments have recognised the benefits to the UK from direct inward investment, especially when it is located in the assisted areas. We shall continue actively to encourage companies to locate here - especially those of American and Japanese origin who can substitute local production for imports and use the UK as a base from which to supply the rest of Europe. Joint ventures with foreign companies can be another means to gaining access to technology, expertise and world markets. We shall be actively encouraging them, especially with Japanese companies. Our specific target for inward investment is:

to maintain and if possible increase the UK's 1982 share of US and of Japanese direct investment in Western Europe by 1987

#### 4.7 Tactical Support in World Markets

4.7.1 Because other Governments are active in the field of supporting major export contracts or in international agreements to reduce pressures from low cost producers, the Department



must be ready to take essentially tactical action in support of British industry. That does not mean we should always match subsidies or import restrictions. But the impact of our competitors' policies has to be considered when formulating our own. It will often be necessary for the Government to ensure that British industry is not placed in a disadvantageous position. No targets are expressed for this essentially tactical work, because it is much affected by developments elsewhere.

## 5 DEPARTMENTAL MANAGEMENT

5.1 Touche Ross recently examined the adequacy of the Department's financial and planning control systems. A number of their recommendations are being implemented:

- a A single Resource Management Group (RMG) chaired by the Permanent Secretary has been established to be responsible for the planning and allocation of the Department's resources
- b The RMG has proposed some priority areas for action for the Department in drawing up Divisional plans, including PES
- c The calibre of financial accounting and internal audit staff is being improved, as are audit procedures
- d Pilot studies of responsibility cost centres are under way at three locations within the Department
- e A strategy for improving management information systems is being prepared.

5.2 A thorough review of Departmental aims has taken place and a Policy Planning Unit has been set up to co-ordinate this work. The aims have recently been published. Within the Department the aims are being used as a framework for planning at the Divisional level through the formulation of policy objectives and operational targets. (This work represents part of the Department's programme to implement the Financial Management Initiative, on which a fuller report will be made shortly.)

5.3 The Department intends to increase its managerial competence over the next five years in a number of other ways. It is planned to:

- 1 Conduct annual reviews of performance against plans for every Division
- 2 Set clear objectives at the outset of all new schemes of assistance, with early evaluation of results
- 3 Make the marketing of the Department's awareness campaigns and schemes more professional and coherent
- 4 Increase the number of exchanges of Departmental staff with those in industry and commerce
- 5 Increase training effort in modern management techniques
- 6 Increase professionalism in monitoring nationalised and state-owned industries
- 7 Integrate more closely the work of administrators and specialists.

## 6 IMPLICATIONS FOR RESOURCES

6.1 The Department's spending, excluding the nationalised industries, is planned to be around £1 billion per year for the next two years. By 1 April 1984 it will employ 7,300, including Common Services shared with DoT - approximately 1% of the Civil Service. This follows a reduction of 23% since May 1979.

### 6.2 Expenditure

6.2.1 To increase the rate of innovation in industry, we intend to give very high priority to maintaining a steady expansion of our programmes for research (Alvey and others) and its application to new products. Since our spending is tied to spending by industry itself, there is a substantial gearing effect. Continued expansion of these programmes should pay big dividends in the competitiveness of UK companies in the 1990s. In the last four years, spending under the Science and Technology Act has increased from £106m in 1978/9 to an allocation of £249m in the present year.

6.2.2 Departmental spending on support for management has grown rapidly due to the expansion of advisory services to small firms, but is still quite modest at £40m per year. We intend that this should occupy a much larger share of our total expenditure within five years.

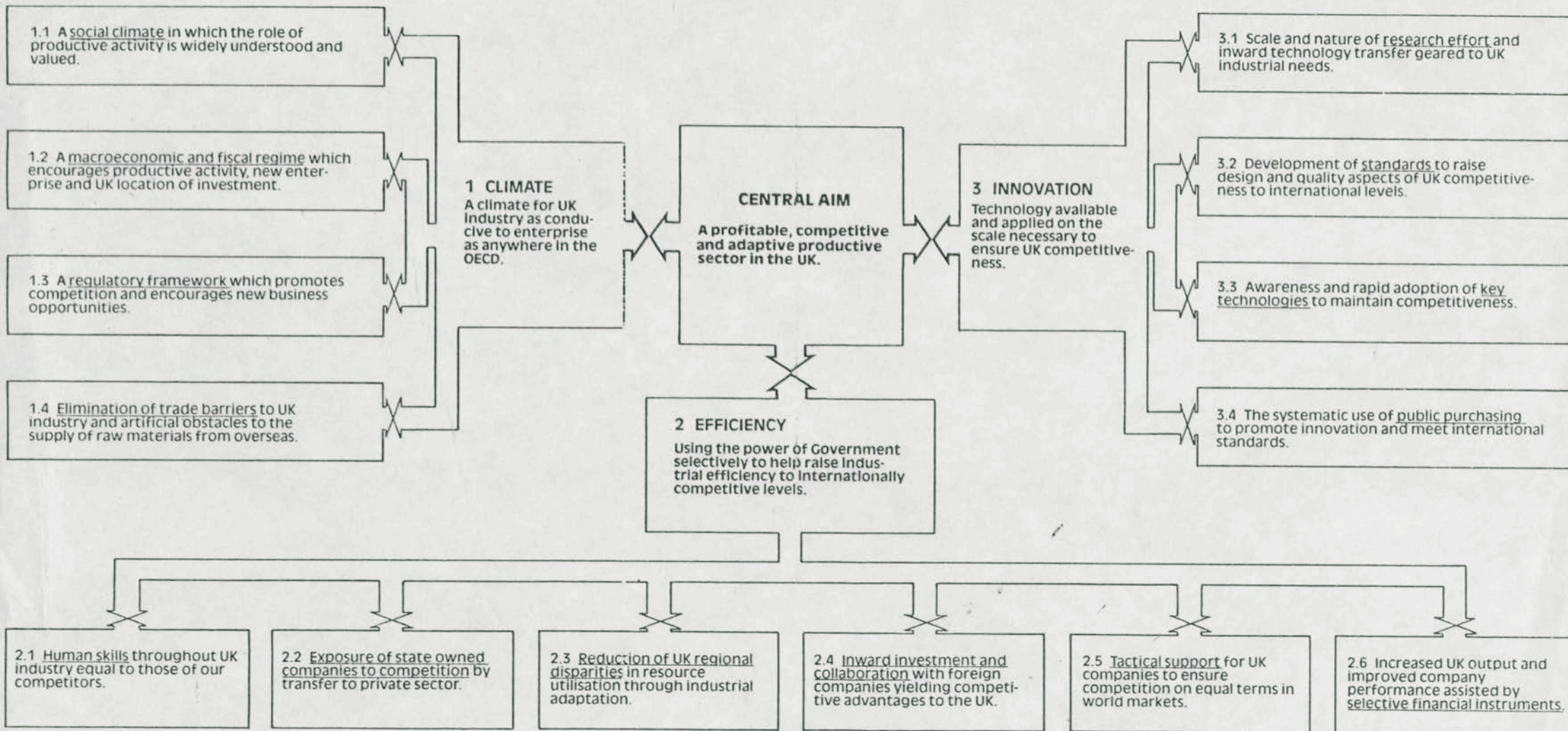
6.2.3 These increases can be accommodated within present levels of total Departmental spending provided that we continue to contain and reduce spending on the state-owned companies and industries and that there are some savings in regional policy as the result of the present review.

### 6.3 Manpower

6.3.1 It will be more difficult to meet the increased need for manpower in our high priority activities - R & D and management support - by reductions elsewhere. Reduced spending on the state-owned enterprises will not release many people. Liberalisation will make increased demands in some cases. (Approximately 50 extra staff will be needed for Oftel.) There is a risk that future forms of regional policy will be more sophisticated and therefore more labour-intensive to administer. We shall be pursuing every opportunity to contract out wherever this can be done without loss of efficiency. The picture should become clearer during the forthcoming exercise on manpower. However much will depend on the outcome of the regional review. If there are new tasks to perform, a small increase in the Department's provision may become necessary in order to carry out our high priority activities.

# DOI STRATEGIC AIMS

ANNEX 2



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*Pine Martin*

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CONFIDENTIAL

PRIME MINISTER

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FORWARD LOOK

Your letter of 16 September to Willie Whitelaw asked for reports of a "Forward Look" at Departmental programmes for the next five years.

My report has been prepared on a similar basis to that adopted in the Welsh Manifesto which explained in 1979 our aims and priorities for dealing with the special characteristics and problems of Wales. We accepted then that Wales was part of Britain and that duplication of approaches and commitments common to the United Kingdom or to Britain was best avoided. I have undertaken the present task similarly, reviewing our performance in meeting the previous commitments to Wales and seeking new lines which might be followed to meet perceived Welsh needs in ways which accord with the Government's overall strategy. The outcome, which concentrates on suggestions for future action, is set out below.

Major Commitments Remaining to be met

As far as our UK commitments are concerned, our obvious task unfulfilled is to "cut income tax" and "restore the incentive to work". This must be a continuing priority objective. Turning to our specific Welsh commitments there are few serious failures or significant unfulfilled objectives. The most urgent task identified in 1979 was the need to establish an economic climate in which wealth and jobs could be created. The Government's economic policies have been directed nationally at this objective. In Wales the emphasis has been to encourage small and medium firms to aim for a much more varied economy, and by large scale investment in industrial infrastructure to provide the conditions for job creation. Whilst we must maintain the momentum, we can claim to have nurtured a significant improvement in the reputation of Wales as an industrial location. In addition to having a skilled workforce and a record of good labour relations we have taken major steps to improve the industrial infrastructure. We have had remarkable success in getting factories occupied and new businesses started in the middle of a deep recession.



When discussing in the 1979 Manifesto the structure of Government in Wales we undertook to seek to enlarge the responsibility of local authorities. Whilst conceding that it might be difficult to find agreement within local government in Wales that we have succeeded, I believe that the Government's efforts can here again be defended. Many formal controls were abolished in the Local Government Planning and Land Act 1980 and I and my Department have consistently sought to refrain from intervening in the way both Welsh local and health authorities provide their services from day to day.

I am satisfied that the Government's achievements greatly outweigh our failures in relation to what we offered in our Welsh Manifesto.

#### New Proposals and Initiatives

We shall need to maintain the general policies which have been followed since 1979 as the bridgehead for our thrust forward in the next five years. Though adjustment to some common policies will be necessary to meet particular Welsh needs and certain special measures may be needed, I have first concentrated attention in my forward look at some of the more important general issues we shall have to consider collectively. My views are summarised below and I would merely add that some of the issues identified certainly need to be subjected to much further thought before our view of the best way ahead can be put to a wider public. Education is a good example.

#### INDUSTRY AND ECONOMIC DEVELOPMENT

We must continue to stimulate the growth of the wider and more varied industrial base which is developing in industrial South Wales and in North East Wales. Investment will still be required to maintain competitiveness in steel and linked to pit closures in coal; while the importance of other traditional industries must not be underestimated; but a priority will be to secure jobs in the newer growth industries and to promote the take-up of new technology by existing enterprises. Inward investment by overseas firms will be vigorously encouraged, but with proper regard for the cost-effectiveness of the promotional effort. Emphasis will also be placed on ways of furthering the Welsh commitment to innovation and technological advance. The perceptible development of sunrise industries along the M4 corridor is something we must build on and exploit. Established programmes of advance factory building and land reclamation should be matched by improvements in the industrial environment, including the provision of attractive, well landscaped estates providing employment in services and distribution as well as in manufacturing. A major need is to ensure that the factory building and other programmes of the public agencies are used as catalysts to attract private sector investment. The experience of the UDG programme will need to be applied to the WDA and may have to be reinforced by changes in the present statutory arrangements.



Good communications are essential to economic development. The Severn crossing is crucial for economic development in South Wales; strengthening of the present bridge and planning for a new one (when eventually needed) will be a high priority and adequate public commitments will be needed before the election. As investment in the major east-west routes is completed, attention will be turned to selected improvements of other key routes (eg A5) and especially to bypasses of the more congested townships, particularly in rural Wales. We shall need to think further about the problem of public transport in rural areas.

#### CONTRACTING OUT PUBLIC SECTOR SERVICES

I have already pointed out to my Health Authority Chairmen the opportunities that exist for contracting out a wide range of services which are presently carried out by NHS staff. I intend following this up by requiring action on an experimental basis.

On the local authority front most of our attention has been concentrated on Direct Labour Organisations. Part III of the Local Government, Planning and Land Act 1980 established a regime for them which exposes their true costs and requires them to be opened up to competition. We must consider whether it is feasible to extend this sort of regime to other parts of the local authority empire. In any case I am sure we must increase the political pressure on local authorities to introduce competition in the provision of services. Experience of the element of competition introduced into refuse collection has shown the benefits which can fall out for other authorities' own labour operations. I shall be meeting shortly with colleagues having Ministerial responsibility for various local authority services to discuss this further. It must surely be an area which could yield significant savings in both local government expenditure and manpower.

#### EDUCATION

Although we hope to see unemployment levels fall, (and I remain far more optimistic about that than is currently fashionable) it would obviously be unwise to plan on the assumption that we can return quickly to low levels. It is essential therefore that we should try to influence the approach of young people to the world into which they will enter, a world full of uncertainties. We want them to emerge ready and willing to make their own way in a world in which they cannot all hope to choose a long lasting career immediately; and in which they may during the course of their lives have to adapt to new environments, to acquire new skills and knowledge. We want them to be resilient and adaptable to change; and we want more of them to be self confident enough to set up their own life styles, to start their own businesses



and occupations. We want as many as possible of the less gifted to be self reliant and able to look after themselves, even if incomes are low, and able to withstand the erosion of morale that can easily happen if they find themselves for a time without work. People have to be taught to survive without relying on someone else to find them a job and home.

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This requires a change in the ethos of the educational system. It will call for a radical change of attitude on the part of both the "consumers" (parents, employers etc) and the providers (local education authorities, teachers). Bringing about this change will be a slow process and it will be a difficult one. The role of the family is paramount. You already have work in hand on this.

The present statutory basis of education in England and Wales limits to a very large degree, the direct influence the Secretary of State can have on the educational system. In the performance of his statutory duties his role is mainly a reactive one. As far as what goes on in the classroom is concerned, he has to rely to a very large extent on persuasion and exhortation. The present arrangements do not allow Ministers' priorities to be put into effect; and we need to think how to do it.

At the other extreme it is possible to envisage a far greater degree of decentralisation than exists at the moment, with the responsibility for running schools and colleges taken in the communities which they serve (ie geographical areas much smaller than the present education authorities. This would certainly accord with our policy of involving parents far more in the education process.

The role of the teacher is crucial in effecting any improvement. We need to pay urgent attention to the need to improve the quality of the teacher force. This will mean taking a radical look at initial training and also ensuring that there is an adequate programme of relevant in-service training for teachers already in employment. Furthermore I think we need to seriously consider to what extent periods of in-service training should be obligatory upon all teachers. Allied to this I would wish to consider the desirability of requiring every teacher who aspires to a headship or deputy headship to demonstrate that he had adequate management training.





At the same time as improving the quality of the teacher force, we also need to look at some other factors. While the overall pupil teacher ratio may appear satisfactory, we should not forget that in certain areas, and this is certainly true in Wales, the wide variety in the size of schools leads to a distorted picture. There is clear evidence that despite an overall PTR of 18:1 in Wales there are, particularly in urban areas, far too many over-large classes in the basic subjects, English and Mathematics. Many of the less able pupils find the curriculum offered them in schools uninteresting and irrelevant. Far too frequently they are offered a watered down version of what is suitable for their more academically able colleagues. Teaching methods which are best suited to this ability range call for small teaching groups and a practical and investigative approach. Putting this right will have resource implications.

All this requires much study and thought but I believe that it is an area in which we need a major new initiative, possibly requiring significant structural change, in order to adapt to changing economic and social circumstances.

#### HOUSING

It is not usually necessary for me to initiate new measures in the field of Welsh housing. Generally speaking, the pattern of need is, *mutatis mutandis*, similar in England and Wales. However, I have identified one area in which I expect to take specific steps. It is the needs of the elderly occupier of private dwellings. Our recent House Condition Survey shows that 40% of the repair work, in money terms, needing to be done to homes in Wales relates to OAP householders. I am presently conducting a special survey into the problem which I hope will enable me to make proposals for helping the elderly to bring their homes up to a decent standard.

On the wider front, I hope that we shall be able to reach agreement on the points touched on in Michael Heseltine's minute to you of 10 December. I have already taken steps to ensure a greater use of capital receipts in Wales by subsuming 75%, instead of 50%, of expected housing receipts into the housing allocations. But I attach considerable importance to measures such as Michael suggests which will enable local authorities to plan their housing programmes with greater confidence and continuity than our present financial control arrangements permit.



## THE HEALTH SERVICE

I look back on 1982 as a watershed in our efforts to set the NHS in Wales on the right path. Our reorganisation is taking effect and there can be no doubt that it will combine greater local responsiveness with efficiency and accountability. Building on this foundation, our efforts are now concentrated on getting better value for money. The planning, monitoring and evaluation of services is being placed on a much sounder, business-like footing.

We have to find ways for vastly improving our present arrangements for planning, designing, contracting out and supervising the building of new hospitals which at present take far too long, lead to great waste and too often produce buildings with significant structural faults or design failures.

These developments release resources for the improvement of care. We are now cutting a clear path to ensure that priority really is given to long-acknowledged priority groups. Thus, I have launched a widely welcomed strategy which promises to transform the quality of life for mentally handicapped people and their families. I propose now to develop an initiative to tackle the problem of caring for the growing numbers of very old people. I may have to take important decisions on the development of certain specialty services such as Cardio Thoracic medicine. My aim in all cases is to preserve to the maximum extent the independence and dignity of the individual.

## LEISURE AND RECREATION

I attach great importance to the constructive use of leisure in this period of high unemployment, both by way of greater participation in sport and in other forms of recreation and adult education. There are a number of policies that would help to further this aim.

First, I would like to see the Sports Council for Wales (SCW) develop its initiative "Operation Sport" with the aim of encouraging unemployed people to become more involved in active sport. It would also help to get sporting activities and facilities to ordinary people, including the unemployed, in their home districts if the SCW were able to increase its help to the governing bodies of the various sports and to local clubs. I am also looking to the urban programme to make a worthwhile contribution towards the provision of recreational facilities in those areas of Wales where they are most needed. In some cases the schools can help (as some do already) by making available their swimming pools, gymnasia and other facilities out of school hours, and I intend to encourage this.



Apart from sport, one area that I would like to see further developed is the use of workshops for the encouragement and exercise of do-it-yourself and similar skills: these workshops might sometimes be in schools, colleges, factories and garages.

Adult education is another area which will, in my opinion, need to be expanded to enable the unemployed and others to develop their intellectual and other interests.

#### WATER

The recent decision by Michael Heseltine and myself on bulk water supply charges has met with a good deal of criticism in Wales. Although our decision was soundly based it has brought home to people once again the fact that Wales has to pay a high price for water services compared with most of England. Although Wales has such a high rainfall its water supply system is relatively expensive because of the difficult topography and the sparsity of population in much of the Principality. I have already taken measures to improve the efficiency of the Welsh Water Authority (WWA), and we will soon start to see the benefit of these measures. But however efficient the WWA becomes it will suffer from the natural disadvantages to which I have referred. I am sure that there will be increasing pressure not only from Wales but from other high-paying areas too for a new system of common charging for water throughout England and Wales, similar to the practice of the gas, electricity and telecommunications industries. It really is difficult to find completely convincing arguments for such totally different approaches to charging for services which have so much in common. It is not too soon for us to start thinking about how a more equitable system for water charges might be devised, and I have asked my Department to do some work on this, in consultation with other Departments. The Labour Party seem likely to promise such a development and, at the very least, we must decide how to respond.

I am copying this to all members of the Cabinet and to Sir Robert Armstrong.

30 December 1982

L.D.

RNE

File

283

24 December 1982

Thank you for your letter of 20 December. I am sorry that your Secretary of State's copy of the Prime Minister's letter of 16 September to Mr. Whitelaw went astray between our Office and yours. In fact, that was a form of interim reminder since the exercise was originally launched by remit in the Cabinet minutes of 29 July.

AER BUTLER

Sir Kenneth Stowe, KCB, CVO.

FIVE

RW

PRIME MINISTER

cc: Mr Gow

FIVE-YEAR FORWARD LOOK

I mentioned to you that the Five-Year Forward Looks which you commissioned from Ministers in charge of departments, to be returned to you by 24 December, are now coming in thick and fast. I attach a folder of those so far received.

Ian Gow and I hope that you will not read these over Christmas.

We suggest that you should authorise me to distribute them to the Chancellor of the Exchequer and the Chairman of the Party, and then arrange a meeting for the New Year to discuss the machinery by which work on them should be taken forward.

E.E. BUTLER

23 December, 1982



Department of Education and Science

Office of Arts and Libraries  
From the Minister for the Arts

cc Please  
Pl file with  
Mrs  
Prime Minister 2  
J  
Elizabeth House York Road  
London SE1 7PH  
30/12  
Telegrams Aristides London SE1  
Tel: 01-928 9222  
wh  
31/12

23rd December 1982

Michael Scholar Esq  
Private Secretary to  
The Prime Minister  
10 Downing Street  
LONDON SW1

Dear Michael

Mr Channon agreed with Sir Keith Joseph that he should reply separately, in respect of the Arts and Libraries programme, to the Prime Minister's request for reports on "forward looks" at departmental programmes for the next five years.

... Mr Channon's reply is attached.

I am sending copies to the Private Secretaries of members of the Cabinet and of Sir Robert Armstrong.

Yours sincerely  
Celia Scott

pp Miss M G E Giles  
Private Secretary

ARTS AND LIBRARIES: FORWARD LOOK

The Government took office in 1979 with a firm commitment to set up the National Heritage Memorial Fund. This has been achieved and had been extremely successful. Apart from this there was a broad commitment to give as generous support to Britain's cultural and artistic life as the country could afford. Some weight was attached to the incidental benefits expected from tax reductions.

Since the election, in spite of real public expenditure cuts, we have kept the arts at a reasonable level. The major national and regional companies have been kept going although there are plenty of financial problems. We have implemented Public Lending Right and authors will receive their first payments next year. We will have started the Theatre Museum before the election. We shall also have made a start on the new British Library building and brought into operation some impressive new museum buildings outside London such as the National Museum of Photography in Bradford, as well as major improvements to the national museums, such as the opening of the Henry Cole building at the V & A. Before the next election we shall have changed the V & A and Science Museums into trustee bodies. We have launched a very successful campaign to encourage private and business sponsorship of the arts.

The next Government's aim should be to maintain this creditable record. We should not aim for expansion in the arts on any scale but we must keep going at a reasonable level the great national and regional organisations, eg the British Museum, the Royal Opera House and the Hallé Orchestra. It will be difficult to do this unless arts funding remains roughly constant in real terms. We must continue our efforts to increase value for money and explore further expansion of private and business sponsorship - perhaps through tax changes.

The area which seems to offer the greatest scope for private sector participation is the British Library. The development

of some of the Library's services to business and industry, particularly those using new technology, may offer attractive opportunities for the introduction of private capital and initiative. The first exploratory steps are being taken now. The next Government should put in hand a vigorous exploitation of whatever possibilities are found to be open. Meanwhile the campaign to increase business sponsorship of the arts should continue and be reinforced by strenuous efforts to maximise the benefits of tax concessions. To the extent that the Treasury's programme makes further tax concessions possible, the effects should be disproportionately helpful.





10 DOWNING STREET

*From the Private Secretary*

21 December 1982

Forward Look

The Prime Minister was grateful for the personal and confidential minute of 17 December by the Foreign and Commonwealth Secretary on this subject and she has noted its contents.

A. J. COLES

Brian Fall Esq  
Foreign and Commonwealth Office,

NK.

**DEPARTMENT OF HEALTH & SOCIAL SECURITY**

Alexander Fleming House, Elephant &amp; Castle, London SE1 6BY

Telephone 01-407 5522 ext 6981

*From the Permanent Secretary*

Sir Kenneth Stowe KCB CVO

PERSONAL

Robin Butler Esq  
10 Downing Street

20 December 1982

*Dear Robin.*

As you may have gathered, my Secretary of State did not receive his copy of the Prime Minister's letter of 16 September to Mr Whitelaw, asking for a five year "forward look" by Christmas. The first we knew of this letter was a reminder from your office last week. Our Private Office has searched extensively through our generally reliable document-logging system and can find no trace of the original letter.

We shall, of course, let the Prime Minister have the information requested, we hope by this Wednesday. There is no point now in trying to decide whether the 16 September letter was lost by your distribution system or by our Private Office. It was plainly lost in one or other or between the two. The important point for the future, I think, is that in any such large exercise with a long time-scale an interim reminder on progress might be helpful.

*Yours sincerely*  
*Ken.*



10 DOWNING STREET

THE PRIME MINISTER

16 September 1982

*File* *cf SV* *089*  
*cc: Cabinet*  
*Co. Gov. PM.*  
  
*Dear Willie,* *cc (87) 40th mtg*

At the meeting of the Cabinet on 29 July I asked each Minister in charge of a Department to arrange for the preparation of a report on a "forward look" at the Department's programmes for the next five years, and to send me the reports not later than Friday 24 December 1982.

It may help colleagues if I set out what I had in mind in making this request. My hope was that this exercise would provide each Minister with material drawn from the ideas and experience of his Department on which he could consider what plans and proposals to suggest as an input into our collective thinking, not only about the commitments to be fulfilled and major decisions likely to be required during the rest of this Parliament, but also about a positive and coherent strategy for the next Parliament. With this in mind I envisaged that the reports should cover:-

- what major commitments with which the Government entered office in 1979 will still remain to be met in the next Parliament;

/ what major

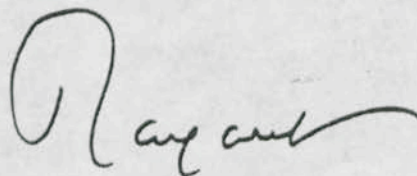
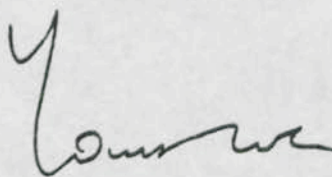
*089*

- what major new proposals are in mind to carry forward in the next Parliament initiatives and reforms started in this Parliament (for instance, privatisation proposals);
  
- what major new initiatives are in contemplation, of a kind which would require significant legislation or structural change, whether in pursuance of the Government's major political objectives or in order to adapt to changing economic and social circumstances.

In each case it would be helpful that the "forward look" should indicate possible timings, and should also indicate expenditure and manpower implications, so far as those can now be foreseen.

Each Minister will want to decide, in consultation with other Ministers within the Department and the Permanent Secretaries, how the work of preparation can best be done in his Department; but I ask each of my colleagues to take a close personal interest in the shape and contents of the eventual report.

I am copying this letter to all members of the Cabinet and Sir Robert Armstrong.



The Rt. Hon. William Whitelaw, C.H., M.C., M.P.

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PRIME MINISTER

You suggested that you might write yourself to each Minister reminding them of your request that they prepare a report on a forward look at the Departments programmes for the next five years. I felt that this would have more impact than a letter circulated among Permanent Secretaries, and also that it is more appropriate bearing in mind the political nature of this exercise. I consulted Sir Robert Armstrong and he agreed.

I am therefore attaching a letter to the Home Secretary, copied to the other members of the Cabinet, in the hope that you will be able to sign it before we leave.

F.R.B.

15 September 1982

Prime Minister

1

Ref. A09463

FERS

MR BUTLER

Yes

It seems to me that Sir R. Armstrong's draft is all right but that it might be improved by incorporating the formula at X below which, as I understand it, captures exactly what you have in mind. Shall I suggest that he incorporate this in the draft?

FERS  
14.9.

Item 6 of the Cabinet minutes of 29th July 1982 read as follows:

THE PRIME MINISTER asked every Minister in charge of a Department to arrange for the preparation of a report on a "forward look" at the Department's programmes for the next five years. The reports should be sent to her, to reach her not later than Friday 24th December 1982.

2. My Permanent Secretary colleagues tell me that they (or some of them) have sought guidance from their Ministers on this, but without any very positive result, beyond a suggestion that they should apply to the Secretary of the Cabinet.

3. My understanding of this request was that it would provide each Minister with material drawn from the ideas and experience of his Department on the basis of which he could consider what plans and proposals to suggest as an input into the Government's political thinking about its programmes for the next Parliament; its being collected in 10 Downing Street would help the Prime Minister to formulate a positive and coherent strategy for a second period of office.

4. Would the Prime Minister be content for me to write to my Permanent Secretary colleagues as in the draft attached?

Yes  
MB

REA

ROBERT ARMSTRONG

13th September 1982

Partners! should think  
want to catch  
reminding  
this decision  
MB



THE PRIME MINISTER TO THE HOME SECRETARY

~~DRAFT LETTER FROM SIR ROBERT ARMSTRONG TO SIR DOUGLAS WASS, GCB~~

~~cc Permanent Secretaries in charge of Departments~~

cc. other members of the Cabinet

Sir Robert Armstrong

At the meeting of the Cabinet on 29th July the Prime Minister asked <sup>each</sup> every Minister in charge of a Department to arrange for the preparation of a report on a "forward look" at the Department's programmes for the next five years, <sup>and to send me the reports</sup> ~~reports to be sent to her, to reach her not later than~~ Friday 24th December 1982.

It may help ~~of~~ <sup>out</sup> colleagues if I set ~~up~~ what I had in mind in making this request. My hope was that this exercise would ~~The Prime Minister felt, and the Cabinet agreed, that the Government provide each Minister with material drawn from the ideas and experience had reached a stage in its life when Ministers should not only be considering of his Department on which he could consider what plans and the commitments to be fulfilled and the major decisions likely to be proposals to suggest as an input into our collective thinking required during the rest of this Parliament, but should also be able to see those commitments and decisions in the context of a longer term look about our programmes for the next Parliament a positive and coherent strategy for the next Parliament. With this in mind into the future. It was now desirable to look forward at the major I envisaged that the reports should cover :- elements in Departmental intentions for the next Parliament, on the assumption~~

~~that the Government was returned to power at the next General Election:~~

~~this should include:~~

- what major commitments with which the Government entered office in 1979 will still remain to be met in the next Parliament;
- what major new proposals are in mind to carry forward in the next Parliament initiatives and reforms started in this Parliament (for instance, privatisation proposals);

not only about the commitments to be fulfilled and major decisions likely to be required during the rest of this Parliament but also



- what major new initiatives are in contemplation, of a kind which would require significant legislation or structural change, whether in pursuance of the Government's major political objectives or in order to adapt to changing economic and social circumstances.

In each case it would be helpful that the "forward look" should indicate possible timings, and should also indicate expenditure and manpower implications, so far as those can now be foreseen.

~~I ask each Minister~~ <sup>of My</sup> ~~colleagues~~ <sup>colleagues</sup> ~~to take a close personal interest~~  
 The Prime Minister expects each Departmental Minister to be responsible ~~for~~ <sup>the</sup> the shape and contents of his report, and it will be for ~~each~~ <sup>for</sup> each Minister ~~to decide, in consultation with his Ministerial colleagues and the~~ <sup>to decide, in consultation with other Ministers within the Department</sup> ~~Permanent Secretary,~~ <sup>will want</sup> how the work of preparation can best be done in his Department; but I ~~should be grateful if~~ <sup>ask</sup> each of my colleagues ~~to~~ <sup>to</sup> take a close personal interest in the shape and contents of the eventual report.

~~I am sending copies of this letter to all Permanent Secretary Heads of Departments.~~

I am copying this letter to all members of the Cabinet and Sir ~~John~~ Robert Armstrong.



